

**PROSPECTUS**

**2,715,000 Shares**



**Network General Corporation**

**Common Stock**

Of the 2,715,000 shares of Common Stock offered hereby, 2,500,000 shares are being sold by the Company and 215,000 shares are being sold by the Selling Stockholders. See "Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Company's Common Stock is quoted on the NASDAQ National Market System under the symbol NETG. On April 6, 1992, the last reported sale price for the Common Stock was \$19.625 per share. See "Price Range of Common Stock."

**The shares offered hereby involve a high degree of risk. See "Risk Factors."**

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

	Price to Public	Underwriting Discount (1)	Proceeds to Company (2)	Proceeds to Selling Stockholders
Per Share . . . . .	\$19.50	\$1.00	\$18.50	\$18.50
Total (3) . . . . .	\$52,942,500	\$2,715,000	\$46,250,000	\$3,977,500

- (1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain civil liabilities under the Securities Act of 1933. See "Underwriting."
- (2) Before deducting expenses payable by the Company estimated at \$270,000.
- (3) The Company has granted to the Underwriters a 30-day option to purchase up to 407,250 additional shares of Common Stock solely to cover over-allotments, if any. If all such shares are purchased, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$60,883,875, \$3,122,250 and \$53,784,125, respectively. See "Underwriting."

The shares of Common Stock are offered by the Underwriters subject to prior sale, receipt and acceptance by them and subject to the right of the Underwriters to reject any order in whole or in part and certain other conditions. It is expected that certificates for such shares will be available for delivery on or about April 14, 1992 at the office of the agent of Hambrecht & Quist Incorporated in New York, New York.

**HAMBRECHT & QUIST**  
Incorporated

**ALEX. BROWN & SONS**  
Incorporated

**PUNK, ZIEGEL & KNOELL**

April 7, 1992.

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company can be inspected and copied at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the Regional Offices of the Commission located at 230 South Dearborn Street, Chicago, Illinois 60604, and 75 Park Place, New York, New York 10007. Copies of such material can be obtained by mail from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the fees prescribed by the Commission.

Additional information regarding the Company and the shares offered hereby is contained in the Registration Statement on Form S-3 and the exhibits thereto filed with the Commission under the Securities Act of 1933, as amended. For further information pertaining to the Company and the shares, reference is made to the Registration Statement and the exhibits thereto, which may be inspected without charge at, and copies may be obtained at prescribed fees from, the office of the Commission at 450 Fifth Street, N.W., Washington D.C. 20549.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There is incorporated herein by reference the Company's Annual Report on Form 10-K for the year ended March 31, 1991, as amended by the Company's Form 8 as filed with the Commission on August 28, 1991, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991 as filed with the Commission on August 14, 1991, the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991 as filed with the Commission on November 14, 1991 and as amended by the Company's Form 8 Amendments as filed with the Commission on March 2, 1992 and March 18, 1992, respectively, the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1991 as filed with the Commission on February 6, 1992 and as amended by the Company's Form 8 Amendments as filed with the Commission on March 2, 1992 and March 18, 1992, respectively, the Company's Current Report on Form 8-K as filed with the Commission on April 2, 1992 and the description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A (including all amendments and reports in respect thereof) as filed with the Commission on January 17, 1989.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated by reference in this Prospectus. Requests for such documents should be directed to the principal executive offices of Network General Corporation, located at 4200 Bohannon Drive, Menlo Park, CA 94025, Attn: Riley R. Willcox, telephone (415) 688-2700.

## TRADEMARKS

Sniffer is a registered trademark and Watchdog Network Monitor and Distributed Sniffer System are trademarks of Network General Corporation. Trademarks of other corporations are also referred to in this Prospectus.



## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus and in the information and documents incorporated by reference herein.*

### The Company

Network General Corporation ("Network General" or the "Company") designs, manufactures, markets and supports software-based analysis and monitoring tools primarily for local area networks ("LANs") and also for wide area networks ("WANs"). The Company expanded its product offerings in the past year, primarily through the introduction of Distributed Sniffer System ("DSS") products, which provide the monitoring and analysis capabilities of the Sniffer Network Analyzer on multiple LAN and/or WAN network segments and enable network managers to access analysis tools from one or more central locations. Network General currently has under development a new release of its Sniffer Network Analyzer software containing expert systems technology, which automates the real time identification and diagnosis of network problems. In August 1991, Network General acquired Progressive Computing, Inc., which designs, manufactures and markets PC-based WAN analyzers. Because the ability to interface with both LANs and WANs is an important attribute of products addressing the growing LAN interconnect market, Network General believes that the combination of its LAN and WAN technologies will enhance its ability to develop network analysis and monitoring tools to address this market. Network General sells its products to domestic end-users through a combination of its direct sales force and manufacturers' representatives and to international distributors for resale to end-users. As of December 31, 1991, Network General has shipped over 7,500 units of its Sniffer Network Analyzer and Distributed Sniffer System products.

### The Offering

Common Stock offered	2,500,000 shares by the Company and 215,000 shares by Selling Stockholders (1)
Common Stock to be outstanding after the offering	18,020,650 shares (1)
Use of proceeds	General corporate purposes
NASDAQ Symbol	NETG

### Summary Financial Information (2)

(in thousands, except per share data)

	Year Ended March 31,			Nine Months Ended December 31,	
	1989	1990	1991	1990	1991
<b>Statement of Operations Data:</b>					
Revenues	\$12,864	\$31,593	\$48,438	\$35,573	\$44,959
Gross Profit	9,780	23,812	37,929	27,664	35,552
Income Before Provision for Income Taxes	4,270	9,545	11,542	9,093	9,015
Net Income	\$ 2,563	\$ 5,855	\$ 7,850	\$ 6,108	\$ 5,784
Earnings Per Share	\$ 0.26	\$ 0.41	\$ 0.51	\$ 0.40	\$ 0.37
Shares Used in Per Share Calculation	10,074	14,409	15,325	15,176	15,771

		December 31, 1991	
	March 31, 1991	Actual	As Adjusted (3)
<b>Balance Sheet Data:</b>			
Working Capital . . . . .	\$37,759	\$45,234	\$91,214
Total Assets . . . . .	46,926	57,642	103,622
Deferred Liabilities . . . . .	222	791	791
Total Stockholders' Equity . . . . .	41,868	49,653	95,633

- (1) Assumes the underwriters' over-allotment option to purchase up to 407,250 additional shares of Common Stock from the Company is not exercised. See "Underwriting." Excludes 1,892,048 shares of Common Stock issuable upon the exercise of options outstanding at December 31, 1991, at an average exercise price of \$8.28 per share.
- (2) All periods except fiscal 1989 reflect combined accounts for Network General and Progressive Computing, Inc., a wholly owned subsidiary of Network General acquired in August 1991, which was accounted for as a pooling of interests. The operating results of PCI in 1989 were not considered to be material. Network General either has reported or will report such information on a combined basis in its Quarterly Reports on Form 10-Q or Annual Report on Form 10-K for fiscal 1992. See "Recent Developments."
- (3) Adjusted to reflect the sale of 2,500,000 shares of Common Stock offered by the Company hereby.



## RISK FACTORS

In addition to other information in this Prospectus, the following factors should be considered carefully by potential purchasers in evaluating the Company, its business and the shares of Common Stock offered hereby:

*New Products and Technological Change.* The market for Network General's products is characterized by rapidly changing technology and evolving industry standards. Network General believes that its future success will depend in part upon its ability to continue to develop and introduce products which support new or enhanced LAN and WAN physical connection technologies and communications protocols. In order to develop new products successfully, however, Network General is dependent upon timely access to information about new developments relating to such technology and standards. There can be no assurance that Network General will have such access or that Network General will be able to develop and market new products successfully and respond effectively to technological changes or new product announcements by others. Network General currently expects to ship in the latter part of the second calendar quarter of 1992 a new release of its Sniffer Network Analyzer software containing expert systems technology, which automates the real time identification and diagnosis of network problems. This new release is currently being field tested with a select group of customers. Network General also currently expects to ship in the summer of 1992 a Sniffer Network Analyzer product designed for FDDI (Fiber Distributed Data Interface) networks. The Company currently expects to begin field testing this product with a select group of customers in the spring of 1992. While development efforts for these two products are currently on schedule, there can be no assurance that these products will be developed successfully or on time or, if developed, will achieve market acceptance. See "Recent Developments—New Product Announcements."

*Dependence Upon Suppliers.* Network General relies on a single supplier or limited number of suppliers for certain critical components of its products. Each Network General product series is designed around a specific hardware platform available only from a single manufacturer. The Company's Sniffer Network Analyzer products are sold either bundled with the specific platform ("platform-based version") or as a board and software product ("module-level version") in which case the customer purchases the platform specified by the Company from another source. Sales of module-level and platform-based versions of the Series 300 Sniffer Network Analyzer products (excluding software options) accounted for approximately one-third of the Company's net revenues for the quarter ended December 31, 1991. The designated platform for the Series 300 is the Toshiba T3200SX laptop computer (the "Toshiba Laptop"). Toshiba has recently announced that it will limit availability of the Toshiba Laptop. Such an announcement generally precedes discontinuance of a product by Toshiba. Network General does not have a purchase contract with Toshiba and has acquired the Toshiba Laptop through distributors on a purchase order basis. The Company is evaluating suitable alternatives for the Toshiba Laptop, including platforms already used in other Sniffer Network Analyzer products. Network General recently ordered and received commitments to deliver over 550 units of the Toshiba Laptop, and believes that these quantities of the Toshiba Laptop are sufficient to meet expected demand for platform-based versions of the Series 300 Sniffer Network Analyzer until the Company has a suitable alternative. As of March 10, 1992, Network General had in inventory approximately 105 of these units. If for any reason sufficient quantities of Toshiba Laptops or suitable alternative platforms become unavailable to the Company or its customers for use with the Company's Series 300 Sniffer Network Analyzer software, the Company's revenues and profitability could be adversely affected.

The hardware platform utilized by Network General's Distributed Sniffer System ("DSS") is the NCR ELP386SX (the "NCR Platform"). Network General understands that it is currently the sole significant purchaser of the NCR Platform and has recently experienced delays in delivery of the NCR Platform. For example, in the quarter ended December 31, 1991, the Company experienced delays of six to ten weeks in shipments of NCR Platforms. Deliveries have now returned to schedule, although there can be no assurance that there will not be delays in the future. Network General has not been notified that NCR is discontinuing the NCR Platform, and Network General is not currently experiencing any shortages of NCR Platforms. However, there can be no assurance that NCR will supply the NCR Platform in a timely manner or at all. If the NCR Platform becomes unavailable or is only available in limited quantities before Network General has arranged for a suitable alternative platform, Network General's revenues and profitability would be adversely affected.



Network General products incorporate specific network connection cards that are available only from single manufacturers. In addition, certain products contain other components, including communications controller integrated circuits, that are available only from single suppliers. Network General's reliance on third party suppliers involves several risks, including limited control over availability, obsolescence, quality and delivery schedules. In 1988, quality control problems on the hardware platforms supplied to Network General and version changes in the system software provided with these hardware platforms caused non-material delays in shipments of Network General's products. The Company has not experienced material quality control problems since that time. Network General has purchase contracts for certain component parts that contain price, delivery and warranty terms and, in some instances, require prior notice of product discontinuances that would enable Network General to make final inventory purchases. Other sole source components are acquired directly from the manufacturer or through distributors on a purchase order basis, including Toshiba, Compaq, NCR and IBM hardware platforms and 3Com, Cogent, Racal-Interlan and Network Peripherals network connection cards. While the Company attempts to maintain adequate supplies of key components, there can be no assurance that Network General will not experience significant quality control problems or supply shortages in the future, which would adversely affect its revenues and profitability.

*Small Backlog and Potential Fluctuations in Quarterly Results.* Network General typically operates with very little backlog, and most of its revenues in each quarter result from orders booked in that quarter. Further, Network General typically generates approximately one-half of its revenues for each quarter in the last month of the quarter. Network General establishes its expenditure levels based on its expectations as to future revenues, and if revenue levels were below expectations this could cause expenses to be disproportionately high. Therefore, a drop in near term demand would significantly affect revenues, causing a disproportionate reduction in profits in any quarter. Network General's operating results may fluctuate for this reason or as a result of a number of other factors, including general economic and political conditions (such as recessions or military conflicts), capital spending patterns of Network General's customers, increased competition, variations in the mix of sales, shortages of components and announcements of new products by Network General or its competitors. In fiscal 1991, Network General's total revenues declined 3% from the third fiscal quarter to the fourth fiscal quarter, which the Company believes resulted primarily from uncertainties relating to economic conditions and the Persian Gulf conflict. The Company's revenues grew by 20% from the second to the third quarter of the current fiscal year. The Company does not believe that quarter-to-quarter growth at this rate is sustainable. See "Risk Factors—Change in Product Mix."

*Change in Product Mix.* Network General began shipping its DSS products in June 1991. The DSS is permanently attached to a network and allows centralized monitoring and analysis of multiple network segments. In contrast, Network General's Sniffer Network Analyzers are portable and permit monitoring and analysis of only one segment at a time. Sales of DSS products have increased rapidly since introduction and, during the quarter ended December 31, 1991, represented approximately 25% of Network General's revenues. There can be no assurance that sales of DSS products will increase as rapidly, or at all, in the future. The Company's Sniffer Network Analyzer revenues increased in the quarter ended December 31, 1991, to \$11.2 million, approximately the level of the comparable quarter of fiscal 1991, reversing the decline experienced in each of the prior three quarters. There is no assurance that Sniffer Network Analyzer revenues will increase or remain at this level in future periods. The increase in Sniffer Network Analyzer revenues in the quarter ended December 31, 1991 over the preceding quarter resulted in part from an increase in export sales and a change in the Company's domestic sales incentive and pricing strategy that encouraged sales of the Company's module-level versions of Sniffer Network Analyzer products domestically. As between these two factors, the more important was the increase in export sales. There were no changes made in the Company's international pricing or in the level of discounts provided to the Company's distributors internationally. The change in domestic sales incentive strategy consisted of higher commissions on sales of module-level versions of Sniffer Network Analyzer products. The change in domestic pricing strategy consisted of the implementation of a marketing program under which the Company offered to its customers module-level versions of Sniffer Network Analyzer products with all related software options in one package at a price which was lower than would apply to the module-level version and these options if purchased separately. The Company believes that the changes to its domestic sales incentive and pricing strategy contributed to an increase in both the unit sales of Sniffer Network Analyzers and the proportion of module-level version sales of these products (relative to platform-based version sales). Although the sales price of module-level versions is generally approximately \$2,000 to \$12,000 lower than



the sales price of platform-based versions, depending on configuration, the increased unit volume resulted in a revenue increase from the prior quarter. The Company's percentage gross margin was favorably affected in the quarter because the percentage margin on module-level versions is higher than that on platform-based versions. This improvement was partially offset by increased sales of DSS products, which generally have a lower percentage gross margin than Sniffer Network Analyzer products. Network General's revenues and percentage gross margin will vary to the extent the mix of products it sells changes among the Sniffer Network Analyzer products and the DSS products. As a result of the factors described above, the Company's product mix has varied and will continue to vary. However, there is no assurance that recent changes to the Company's product mix are indicative of future changes in the product mix or of future results of operations. See "Recent Developments—Increased DSS Product Sales."

*Method of Distribution.* Network General sells its products to end-users in the United States either through manufacturers' representatives or through its direct sales force. The Company sells its products internationally only through distributors for resale to end-users. The Company's manufacturers' representatives are organizations which sell the Company's products to end-users in return for the payment of a sales commission by the Company. The Company's distributors do not receive sales commissions, but are entitled to purchase at a discount (relative to domestic end-user prices) the products which they resell.

Network General recently has expanded its domestic direct sales force in the United States by acquiring or replacing manufacturers' representatives. Territories of the United States covered by the Company's direct sales force as of December 31, 1990 and 1991 accounted for approximately 6% and 65%, respectively, of revenues in the United States in the nine months ended December 31, 1990 and 1991, respectively. As a result of this expansion, the Company had 81 domestic sales employees at December 31, 1991 (which number includes 14 employees who joined the Company in January 1992 in connection with the termination of a manufacturers' representative in December 1991) as compared to 53 at December 31, 1990. The expansion of the direct sales force has increased the fixed portion of Network General's sales and marketing expenses. The salary expense associated with the increase in the number of sales employees is primarily responsible for the increase in the fixed portion of the Company's sales and marketing expenses. As a result, if revenues are lower than expected, sales and marketing expenses will be disproportionately high. Network General expects to continue to expand its direct sales coverage and international sales activities. See "Recent Developments—Expansion of Domestic Direct Sales Force."

The Company's sales expenses have been lower internationally since it sells through distributors outside the United States who do not receive commissions. The Company had approximately 44 distributors as of December 31, 1991, an increase of approximately one-third as compared to the same date the prior year. No distributor accounted for 10% or more of the Company's revenues in any one of the three fiscal years ended March 31, 1991. At December 31, 1991, the Company (excluding Progressive Computing, Inc.) was represented by 7 manufacturers' representative organizations, as compared with 12 manufacturers' representative organizations at December 31, 1990. Progressive Computing, Inc. was represented by 13 manufacturers' representative organizations at December 31, 1991, as compared with 10 manufacturers' representative organizations at December 31, 1990. Network General's distributors and manufacturers' representatives also sell and represent other lines of products which are complementary to those of Network General. While Network General encourages these distributors and representatives to focus on its products through marketing and support programs, there is a risk that distributors or representatives may give higher priority to products of other suppliers, thus reducing their efforts to sell Network General's products. In addition, these distributors and manufacturers' representatives may not have the resources to expand their operations to meet increased demand for Network General's products.

*Competition.* Network General currently experiences substantial competition from established and emerging computer, communications, intelligent network wiring, network management and test equipment companies and expects such competition to increase in the future. The primary competitors for the Network General products are Hewlett-Packard Company and Novell, Inc. These competitors have greater name recognition, more extensive engineering, manufacturing and marketing capabilities and substantially greater financial, technological and personnel resources than those available to Network General. There can be no assurance that Network General will be able to compete successfully in the future with these existing or anticipated competitors. In particular, competitive pressures from existing competitors who offer lower prices



or who have introduced new products have in some instances resulted in delayed or deferred purchasing decisions by potential customers of Network General. There can be no assurance that lower prices offered by or new products introduced by competitors may not in the future result in such delays or deferrals or require Network General to reduce its prices, both of which could adversely affect Network General's revenues and operating margins.

*Emerging Standards.* Network General does not believe that any comprehensive official or de facto set of industry standards have emerged regarding the performance criteria or specifications for products of the type sold by the Company. However, representatives from Network General and some of its competitors are participants in the Internet Engineering Task Force Remote Monitoring (RMON) Management Information Base (MIB) Working Group, which has formulated a draft standard for the use of Simple Network Management Protocol (SNMP) for the remote collection of network statistics based on this group's judgment as to the method and categories of statistics to be collected. Although Network General does not expect the standard to be adopted until early 1993, Network General believes that it may become a competitive requirement to offer products in compliance with this standard in a timely fashion. The Company has been informally advised by select current and potential customers that they prefer products that comply with SNMP. When this or other standards are adopted, Network General expects that it may need to modify certain of its products to conform to these standards. The development costs of necessary modifications to its products could be significant, and there is no assurance that the Company will be successful in modifying its products to conform to the eventual RMON or other standards. Because the need for such development has not yet occurred and would involve numerous variables which cannot be determined at this time, the Company is presently unable to quantify the potential cost of modifying these products in connection with the adoption of any such standard. The Company has observed on several occasions in the past that the adoption of standards is sometimes followed by widespread compliance with such standards, tending to decrease the relative importance of product performance differentiation, and to increase the relative importance of price differentiation. Therefore, the Company expects that, as the RMON or other relevant standards are finalized, a number of current and prospective competitors could develop standards-based products, resulting in increased competition based on price. In addition, as standards are being formulated and established, customers may delay orders while they consider the impact and role of standards-based products.

*Export Sales and International Presence.* Network General's export sales (exclusive of export sales by Progressive Computing, Inc.) represented approximately 16%, 19% and 23% of revenues in fiscal 1989, 1990 and 1991, respectively. Network General's export sales (combined with export sales by Progressive Computing, Inc.) represented approximately 25% and 23% of revenues in the three month and nine month periods ended December 31, 1991, respectively, and approximately 22% and 23% of revenues in the three month and nine month periods ended December 31, 1990, respectively. Network General believes that export sales may represent an increasingly significant portion of its product sales in the future. Accordingly, the Company is expanding its international sales activities and is incurring additional related costs. As of December 31, 1991, the Company had 10 employees whose responsibilities primarily included sales outside the United States, as compared to 6 on December 31, 1990. To the extent international sales are lower than expected, quarterly operating results would be adversely affected. Network General is subject to the normal risks of conducting business internationally, including longer payment cycles and greater difficulty in account receivable collection. The Company offers 45 day net terms internationally as compared to 30 day net terms in the United States. Also, collection of overdue international receivables generally is more difficult because it must be carried out under foreign legal systems. To date, all sales to distributors located outside of the United States have been denominated in U.S. dollars. However, the Company may in the future make sales in foreign currencies and would then be exposed to risks associated with fluctuating exchange rates. The Company would likely at that time consider utilizing hedging arrangements to reduce its exposure against such risks.

*Proprietary Rights.* Network General does not hold any patents and relies upon copyright, trademark and trade secret law to establish its proprietary rights in its products. There can be no assurance that these protections will be adequate or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology.

*Attraction and Retention of Key Employees.* Competition for qualified personnel in the computer industry is intense. The future success of Network General will depend in large part on its ability to attract and



retain key employees. In particular, Network General believes that the continued employment of Harry J. Saal, President and Chief Executive Officer, is important to the continued success of Network General. Network General does not have an employment agreement with Dr. Saal. The Company has key-man life insurance on Dr. Saal, which provides for the payment to the Company of \$2.0 million in the event of Dr. Saal's death.

*Substantial Control by Officers and Directors, Anti-Takeover Provisions and Indemnification.* Network General's officers and directors will retain voting control of approximately 20% of Network General's Common Stock outstanding after the offering and therefore will exercise substantial control over Network General's affairs. Certain charter provisions could have the effect of delaying, deferring or preventing a change in control of Network General. These provisions include implementing a classified Board of Directors permitting stockholders to act only at annual or special meetings and requiring stockholders to give advance notice of director nominations and proposals for action. These provisions also include a requirement that a special meeting of stockholders may only be called by the Board, and that 80% of all the outstanding shares of the Company entitled to vote must approve any action to repeal the bylaws or any of the provisions mentioned in the preceding sentence. Charter provisions also permit a majority of directors to change the number of authorized directors without stockholder approval and permit only directors to fill any vacancies on the Board of Directors. Such provisions additionally permit the Board of Directors to consider factors other than price per share when evaluating a tender offer, exchange offer or other type of proposed business combination. The above-mentioned anti-takeover provisions would reduce the likelihood that any acquirer would make a hostile tender offer for the outstanding shares of stock of the Company at a premium over the market rate, increase the difficulty of removing the existing Board of Directors and management and possibly make the accomplishment of a given transaction more difficult, even if it would be favorable to the interests of the stockholders. In addition, Network General's charter eliminates the personal monetary liability of its directors for breach of their duty of care, and Network General has entered into agreements with its officers and directors indemnifying them against losses they may incur in legal proceedings resulting from their service to Network General.

*Volatility of Stock Price.* Based on the trading history of its stock, Network General believes factors such as announcements of new products by Network General or its competitors, sales of stock into the market by existing holders and quarterly fluctuations in financial results have caused and are likely to continue to cause the market price of Network General's Common Stock to vary substantially. In addition, technology company stocks have experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of such companies. This market volatility may adversely affect the market price of Network General's Common Stock. See "Price Range of Common Stock."



## USE OF PROCEEDS

The net proceeds to be received by the Company from this offering are estimated to be \$45,980,000 (\$53,514,125 if the Underwriters' over-allotment option is exercised in full). The principal purpose of this offering is to increase the Company's equity. The Company anticipates that the net proceeds, including interest thereon, will be used for general corporate purposes. The Company believes that success in its industry requires substantial capital in order to maintain the flexibility to take advantage of opportunities as they arise and that it is prudent to conduct the offering at this time in order to take advantage of favorable market conditions. The Company may use a portion of the net proceeds to acquire businesses, products or technologies complementary to the Company's current business, although it has no such commitments and no such acquisitions are currently being negotiated or planned. Pending such uses, the net proceeds of this offering will be invested in short-term, interest-bearing investments. The Company's investment guidelines require these investments to be in investment grade securities, short-term money market funds or other securities of equivalent risk and with terms to maturity not in excess of 270 days.

The Company will not receive any of the proceeds from the sale of securities by the Selling Stockholders.

## PRICE RANGE OF COMMON STOCK

The Common Stock of Network General has been traded in the over-the-counter market under the NASDAQ symbol "NETG" since Network General's initial public offering in February 1989. The following table sets forth the range of high and low closing sale prices for the Common Stock of Network General for the periods indicated, all as reported by NASDAQ.

	<u>High</u>	<u>Low</u>
Fiscal Year ended March 31, 1990		
First quarter . . . . .	\$ 6.82	\$ 5.25
Second quarter . . . . .	10.25	6.50
Third quarter . . . . .	10.75	8.19
Fourth quarter . . . . .	13.63	9.38
Fiscal Year ended March 31, 1991		
First quarter . . . . .	\$13.38	\$11.00
Second quarter . . . . .	14.50	4.25
Third quarter . . . . .	9.00	5.00
Fourth quarter . . . . .	12.25	7.00
Fiscal Year ending March 31, 1992		
First quarter . . . . .	\$ 9.25	\$ 7.50
Second quarter . . . . .	14.38	7.25
Third quarter . . . . .	17.00	12.50
Fourth quarter . . . . .	25.25	15.88

On April 6, 1992, the closing sales price of Network General Common Stock as reported on the NASDAQ National Market System was \$19.625 per share. Network General has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future. As of December 31, 1991, there were approximately 274 holders of record of the Common Stock.

## PRODUCTS

### Sniffer Network Analyzer

The Sniffer Network Analyzer products are based on a common architecture and consist of proprietary software and the communications hardware necessary to run this software. Network General's software is written so that it is adaptable to PC compatible products utilizing an Intel 80386 or 80486 microprocessor. Network General began shipping Sniffer Network Analyzer products in September 1986. In order to minimize customer problems with installation and support, Network General offers its software packaged on platforms including the NCR ELP386SX, the Toshiba T3200SX and T3200SXC laptops, the COMPAQ Portable 386 and 486c, and the IBM PS/2 Model P70. Network General also offers customers the option of supplying their own hardware platform (with the exception of the NCR ELP386SX) and purchasing the software and a specially designed network card from Network General ("module-level versions"). The Company offers the ability to choose combinations from seven physical connection topologies and up to twelve protocol interpreter suites installed on one of three primary hardware series:

- **300 Series:** Products in this series utilize either the Toshiba T3200SX laptop or the Toshiba T3200SXC laptop (for color monitors). Both laptops are based on 80386SX processors. Products in the 300 series support Token Ring, Ethernet, ARCNET and WAN network topologies and are available in both module-level and platform-based versions.
- **500 Series:** Products in the 500 series utilize either the COMPAQ Portable 486c or 386 platform. The 486c and 386 platforms are based on 80486 and 80386 processors, respectively. The 386 version supports the Token Ring, Ethernet, ARCNET, StarLAN, LocalTalk, IBM PC Broadband and WAN network topologies, and the 486c version supports Token Ring, Ethernet and WAN network topologies. Both the 486c and the 386 versions are available on a module-level basis. Currently, the Company ships platform-based versions of the 386 product and has recently announced the availability of platform-based versions of the 486c product, the first unit of which was shipped in early March 1992.
- **700 Series:** Products in the 700 series utilize the IBM PS/2 model P70 platform, which is based on an 80386 processor. The 700 series products support the Token Ring network topology. The 700 series products are available both as module-level and platform-based versions.

The prices for these platform-based versions of the Sniffer Network Analyzer products range from \$17,000 to \$44,000, depending upon platform type and software options. The price range for module-level versions of Sniffer Network Analyzer products is approximately \$12,500 to \$27,500, depending on the number of network topologies and software options selected. The average number of software options shipped per Sniffer Network Analyzer has varied over time as a function of the changes in the technical needs of customers, the number of options which the Company bundles with its Sniffer Network Analyzer products and the Company's pricing of options.

The Company has an ongoing program of developing new releases of its Sniffer Network Analyzer software as well as additional topology connection options. See "Recent Developments—New Product Announcements."

### Distributed Sniffer System

Network General first shipped its DSS products in June 1991. DSS is a LAN and WAN monitoring and analysis tool based on a client-server architecture. This tool allows customers to diagnose the problems of complex, multi-segment networks from centralized locations. A Distributed Sniffer System consists of one or more servers and consoles. The distributed intelligent servers analyze and process information on individual network segments and communicate through the network to one or more central consoles. Typically, an end-user initially purchases a starter kit which consists of two servers and one module-level console for approximately \$20,000. End-users can purchase additional servers and consoles to provide broader coverage of their networks. DSS includes intelligent servers that perform distributed analysis and monitoring on multiple



segments simultaneously. The price range for additional servers is \$5,000 to \$11,000 depending upon topology and level of functionality selected. The price for an additional module-level console kit is approximately \$8,000, and the price for a console, including computer, is approximately \$17,000.

#### **Other Products and Services**

Other products include the Progressive Computing, Inc. line of WAN analysis products and the Watchdog Network Monitor. The price range for WAN analysis products is \$2,000 to \$15,000, while the price range for Watchdog Network Monitors is \$2,000 to \$2,700. The Company also derives revenues from training, software support and maintenance contracts, product rentals, consulting services and royalties from license agreements, but such revenues have constituted less than 5% of the Company's revenues in each of the three fiscal years ended March 31, 1991 and the nine month period ended December 31, 1991.

#### **RECENT DEVELOPMENTS**

*Estimates of Fourth Quarter and Fiscal Year 1992 Results.* Network General publicly announced on April 1, 1992 that it estimates its revenues and earnings per share for the quarter ended March 31, 1992 were approximately \$18.8 million and between \$0.19 and \$0.20, respectively, as compared with revenues and earnings per share for the quarter ended March 31, 1991 of \$12.9 million and \$0.11, respectively. Network General also estimates, subject to normal year-end audit adjustments, that its revenues and earnings per share for the fiscal year ended March 31, 1992 were approximately \$63.8 million and between \$0.55 and \$0.56, respectively, as compared with revenues and earnings per share for the fiscal year ended March 31, 1991 of \$48.4 million and \$0.51, respectively. The results for these periods reflect combined accounts for Network General and Progressive Computing, Inc., a wholly owned subsidiary of Network General acquired in August 1991 in a transaction accounted for as a pooling of interests.

*Increased DSS Product Sales.* Network General first shipped its DSS products in June 1991. Sales of the DSS products have increased rapidly, with revenues of \$1.3 million, \$2.9 million and \$4.4 million in the first, second and third quarters, respectively, of fiscal 1992. During the quarter ended December 31, 1991, revenues from DSS product sales represented approximately 25% of Network General's revenues. There is no assurance that the current rate of growth of sales of DSS products will continue.

*Expansion of Domestic Direct Sales Force.* The Company believes that, as a result of the broadening of its product line to include more systems-level products, it would be more effective to sell its products domestically through a direct sales force. The Company's products are complex (especially its newly introduced Distributor Sniffer System product) and, therefore, require more training of sales personnel by the Company and education of potential customers by sales personnel, both of which require more time than many manufacturers' representatives are willing to commit. During fiscal 1992, the Company continued to expand its domestic direct sales force. In most cases, the expansion occurred through negotiated agreements with the Company's manufacturers' representatives which permitted the Company to hire individuals who previously represented Network General products. Sales by these manufacturers' representatives accounted for a majority of Network General's domestic revenues in the first nine months of fiscal 1992. The expansion of the domestic direct sales force has increased the fixed portion of the Company's sales and marketing expenses. As a result, if revenues are lower than expected, sales and marketing expenses will be disproportionately high. Therefore, lower-than-anticipated revenues would have a greater impact on operating income than prior to this shift. Network General expects to continue to expand its direct sales coverage and international sales activities. The Company's domestic direct sales personnel receive a base salary and commission based on sales. The Company's standard sales compensation plan typically provides that if these personnel meet their sales objectives, their compensation will consist of approximately equal amounts of base salary and commission.

*New Product Announcements.* Network General currently has under development a new release of its Sniffer Network Analyzer software containing expert systems technology which automates the real time identification and diagnosis of network problems. This new release is currently being field tested with a select group of customers, and Network General currently expects to ship this product in the latter part of the second calendar quarter of 1992. Network General believes that the Expert version of its Sniffer Network Analyzer



products will not only provide network managers with previously unavailable information about their networks, but, due to the Expert version's automation of certain recognition and analysis tasks which were previously performed by a human operator, will permit less experienced network managers to manage their networks more effectively.

In line with its efforts to maintain broad coverage of all major physical LAN connection technologies, Network General also has under development a Sniffer Network Analyzer product designed for FDDI networks. The Company currently expects to begin field testing this product with a select group of customers in the spring of 1992 and to ship this product in the summer of 1992. Network General believes that FDDI products are important to its strategy of providing single analyzer solutions to managers of multi-topology networks. While the development of the new software release and the FDDI Sniffer Network Analyzer products are currently on schedule, there can be no assurance that these products will be developed successfully or on time or, if developed, will achieve market acceptance.

**Acquisition of PCI.** In August 1991, Network General acquired Progressive Computing, Inc. ("PCI"). PCI designs, manufactures and markets PC-based WAN analyzers supporting several WAN protocols, including SNA, X.25, ISDN and SS7. Although revenues from PCI represented less than ten percent of revenues from combined operations during the quarter ended December 31, 1991, Network General believes that PCI's WAN expertise and WAN technology will be important elements of Network General's product development efforts because of the increasing importance of the LAN interconnect market and the demand for a single PC-based network system capable of analyzing both LAN and WAN protocols.

Network General acquired PCI in exchange for approximately 900,000 shares of Network General Common Stock in a transaction accounted for as a pooling of interests. A reconciliation of the current financial statements to previously reported separate company information is presented below (in thousands):

	<u>Year Ended March 31,</u>		<u>Nine Months</u>
	<u>1990</u>	<u>1991</u>	<u>Ended</u>
			<u>December 31, 1990</u>
<b>Summary of Operations Data:</b>			
Revenues:			
Network General . . . . .	\$29,421	\$44,613	\$32,772
PCI . . . . .	2,172	4,039	2,961
Eliminations . . . . .	—	(214)	(160)
Combined . . . . .	<u>\$31,593</u>	<u>\$48,438</u>	<u>\$35,573</u>
Net Income (Loss):			
Network General . . . . .	\$ 5,912	\$ 7,261	\$ 5,387
PCI . . . . .	(57)	589	721
Combined . . . . .	<u>\$ 5,855</u>	<u>\$ 7,850</u>	<u>\$ 6,108</u>

**Selected Balance Sheet Data:**

	<u>Working Capital</u>	<u>Total Assets</u>	<u>Deferred Liabilities</u>	<u>Total Stockholders' Equity</u>
As of March 31, 1991:				
Network General . . . . .	\$37,093	\$45,398	\$222	\$40,988
PCI . . . . .	666	1,577	—	880
Eliminations . . . . .	—	(49)	—	—
Combined . . . . .	<u>\$37,759</u>	<u>\$46,926</u>	<u>\$222</u>	<u>\$41,868</u>

**Change in Accounting Practices.** On December 12, 1991, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 91-1, "Software Revenue Recognition". The new SOP requires, among other things, that the sales value of postcontract customer support which is included as part of an initial warranty period must be deferred and amortized over the warranty period. This is the only provision



of the SOP that is expected to impact the Company's previously reported revenues. The Company plans to restate previously reported results when it implements the new accounting rules in the first quarter of fiscal 1993. This change is expected to reduce previously reported earnings by less than \$500,000 in each of fiscal 1990, 1991 and 1992.

**Board of Directors and Management.** In September 1991, Dr. Howard Frank, a senior fellow at the Wharton School of Business, and Roger C. Ferguson, Network General's Vice President and Chief Operating Officer, joined the Board of Directors. Also in September 1991, Michael C. Child, a member of the Board of Directors since December 1987 and a partner in the venture capital firm of TA Associates, resigned from the Board of Directors. In January 1992, George Comstock, Network General's Vice President of Business Development, retired.

## SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the Selling Stockholders as of February 1, 1992:

Selling Stockholder	Shares owned prior to offering	Shares to be sold in the offering	Shares owned after the offering(3)	Percentage stock owned after the offering(4)
Harry J. Saal(1)	1,737,552	100,000	1,637,552	9.1 %
Leonard J. Shustek(2)	2,020,318	100,000	1,920,318	10.6 %
Roger C. Ferguson(3)	80,000	15,000	65,000	0.4 %

- (1) Includes 5,000 shares beneficially owned by Dr. Saal's spouse pursuant to an option which is exercisable within 60 days of February 1, 1992.
- (2) Includes 212,818 shares held by Dr. Shustek as trustee for trusts for the benefit of Dr. Saal's children. Dr. Shustek disclaims beneficial ownership of such shares.
- (3) Includes 20,000 shares subject to an option which is exercisable within 60 days of February 1, 1992.
- (4) Assumes no exercise of the Underwriters' over-allotment option.

Dr. Saal, a founder of Network General, has served as President, Chief Executive Officer and a director of Network General since its inception in May 1986.

Dr. Shustek, a founder of Network General, has served as Secretary and a director of Network General since its inception in May 1986. Dr. Shustek served as Network General's Vice President, Research and Development, from its inception until May 1987 and as Network General's Executive Vice President, Research and Development, since May 1987.

Mr. Ferguson has served as Vice President and Chief Operating Officer of Network General since June 1989. Prior to that he served as Vice President, Operations, and Chief Financial Officer of Network General since December 1987. Mr. Ferguson became a director of Network General in September 1991.

## UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below, through their Representatives, Hambrecht & Quist Incorporated, Alex. Brown & Sons Incorporated, and Punk, Ziegel & Knoell, L.P., have severally agreed, to purchase from the Company and the Selling Stockholders the following respective number of shares of Common Stock.

Name	Number of Shares
Hambrecht & Quist Incorporated . . . . .	1,086,000
Alex. Brown & Sons Incorporated . . . . .	1,086,000
Punk, Ziegel & Knoell, L.P. . . . .	543,000
Total . . . . .	<u>2,715,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. The nature of the Underwriters' obligations is such that they are committed to purchase all shares of the Common Stock offered hereby if any of such shares are purchased.

The Underwriters propose to offer the shares of Common Stock directly to the public at the initial offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of not in excess of \$0.60 per share. The Underwriters may allow and such dealers may reallow a concession not in excess of \$0.10 per share to certain other dealers. The Underwriters have informed the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority. After the initial offering of the shares, the offering price and other selling terms may be changed by the Underwriters.

The Company has granted to the Underwriters an option, exercisable not later than 30 days after the date of this Prospectus, to purchase up to 407,250 additional shares of Common Stock at the public offering price less the underwriting discount set forth on the cover page of this Prospectus. To the extent that the Underwriters



exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock to be purchased by it shown in the above table bears to the shares of Common Stock offered hereby, and the Company will be obligated, pursuant to the option, to sell such shares to the Underwriters, to the extent the option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of shares of Common Stock offered hereby.

The offering of the shares is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject an order for the purchase of shares in whole or in part. The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Selling Stockholders and all directors and executive officers of the Company, who will own in the aggregate after the offering approximately 3,638,612 shares of Common Stock, have agreed that they will not, without the prior written consent of the Underwriters, offer, sell or otherwise dispose of any shares of the Company's capital stock owned by them upon the completion of this offering until the second business day following the public release of the Company's financial results for the year ended March 31, 1992, expected to occur on approximately May 1, 1992.

#### **LEGAL MATTERS**

The validity of the shares offered hereby will be passed upon for the Company and the Selling Stockholders by Ware & Freidenrich, A Professional Corporation, Palo Alto, California. Gregory M. Gallo, a member of Ware & Freidenrich, is a director of Network General and holds 1,000 shares of Network General Common Stock and an immediately exercisable option to purchase an additional 30,000 shares of Network General Common Stock. Certain legal matters will be passed upon for the Underwriters by Wilson, Sonsini, Goodrich & Rosati, Professional Corporation, Palo Alto, California.

#### **EXPERTS**

The consolidated financial statements and schedules incorporated by reference in this Registration Statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon authority of said firm as experts in giving said reports.



No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, any Selling Stockholder or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy to any person in any jurisdiction in which such offer or solicitation would be unlawful or to any person to whom it is unlawful. Neither the delivery of this Prospectus nor any offer or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or that information contained herein is correct as of any time subsequent to the date hereof.

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2,715,000 Shares



Network General Corporation

Common Stock

## PROSPECTUS

**HAMBRECHT & QUIST**  
Incorporated

**ALEX. BROWN & SONS**  
Incorporated

**PUNK, ZIEGEL & KNOELL**

April 7, 1992